



MRC Pontiac

COMMON FLI / FLS INVESTISSEMENT POLICY

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Table of Contents

1.	FOUNDATIONS OF THE POLICY	3
1.1	Mission of the Funds.....	3
1.2	Purpose	3
2.	PROJECT ANALYSIS CRITERIA	3
2.1	The economic viability of the funded business	3
2.2	The economic impact in terms of job creation	3
2.3	The knowledge and experience of the promoters.....	3
2.4	Openness towards the workers.....	3
2.5	Subcontracting and privatization of operations.....	3
2.6	The participation of other financial partners	4
2.7	Legal aspects.....	4
2.8	Sustainability of the Fund.....	4
3.	INVESTMENT POLICY	4
3.1	Eligible Enterprises	4
3.2	Eligible Projects	4
3.3	Eligible Sectors of Activity	5
3.4	Eligible expenses	5
3.5	Ineligible expenses	6
3.6	Nature of support	6
3.7	Investment ceiling	7
3.8	Interest rate	7
3.9	Investment period	8
3.10	Down payment requirements.....	8
4.	COMBINAISON OF FLI/FLS LOANS	9
5.	ACCUMULATION OF GOVERNMENT SUPPORT	9
6.	INSTALLMENT CONDITIONS	9
7.	MORATORIUM ON CAPITAL REPAYMENT	9
8.	REPAYMENTS BY ANTICIPATION	9
9.	RESTRICTIONS	10
10.	RECOVERY	10
10.1	Steps in the recovery process	10
10.2	Bankruptcy or proposal of settlement situations	10
10.3	Other situations.....	10
10.4	Moratorium on reimbursement	10
10.4.1	New project.....	11
10.4.2	Project in progress	11
11.	ADMINISTRATIVE FEES.....	11
12.	APPLICATION PROCESS	11
13.	EXCEPTION TO THE POLICY.....	12
14.	THE POLICY CHANGE.....	12
15.	COMING INTO FORCE	12
16.	SIGNATURES.....	12
	ANNEX A	13
	ANNEX B	14

COMMON FLI/FLS INVESTISSEMENT POLICY

Hereinafter referred to as “**Local Funds**”

1. FOUNDATIONS OF THE POLICY

1.1 Mission of the Funds

The mission of the “Local Funds” is to financially and technically help new and existing businesses in order to create and maintain jobs within the MRC Pontiac territory.

These Local Funds are comprised of the Local Investment Funds entrusted to the MRC by the “Ministère de l’Économie et de l’Innovation du Québec”

AND

The Solidarité FTQ’s Local Funds.

These “**Local Funds**” intervene mainly at the level of infusion of funds in the businesses. The “**Local Funds**” financial aid is an essential lever that allows to obtain financing from other sources such as a conventional loan from a financial institution, a grant, a down payment or another seed capital funding.

1.2 Purpose

The “**Local Funds**” encourages the entrepreneurial spirit, and their development task is to support entrepreneurs in their project in order to:

- Create and support viable businesses;
- Finance start-ups, expansion or acquisition of businesses;
- Support job creation;
- Contribute to the economic development of the MRC territory.

2. PROJECT ANALYSIS CRITERIA

2.1 The economic viability of the funded business

The business plan demonstrates that the business can maintain a profitability, has repayment capacity and good future prospects.

2.2 The economic impact in terms of job creation

Companies create and maintain jobs in the MRC territory.

2.3 The knowledge and experience of the promoters

The promoters must demonstrate knowledge and experience relevant to their domain as well as management knowledge and skills. If a weakness is found, Common Investment Committee (CIC), the Committee ensures that the promoter has internal and external resources to support and advise him.

2.4 Openness towards the workers

The openness of the companies towards their workers and their approach to labour relations are taken into account in the analysis of a funding application.

2.5 Subcontracting and privatization of operations

The “Local Funds” cannot be used to invest in companies engaged solely in subcontracting activities or privatization of operations or certain operations, which would only move an economic activity and jobs from one organization to another.

2.6 The participation of other financial partners

The promoter participates with a financial contribution of at least 20% of the total cost of the project. Capital contributions from other sources, including a financial institution or another public body are strongly desired in projects.

2.7 Legal aspects

The promoters must be released from any bankruptcy judgment (a certificate of discharge must be produced), should not be involved in a dispute or court proceedings and must be released from any debt. A promoter who has or had a debt to a loan from the Local Funds in the past decade is no longer eligible for these funds.

2.8 Sustainability of the Fund

The self-financing of the “Local Funds” will guide the investment committee in its selection of businesses to support. For each investment case, the impact on the portfolio is analyzed in a perspective of balance and sustainability of the funds.

3. INVESTMENT POLICY

3.1 Eligible Enterprises

FLI	FLS
Traditional enterprises Social Economy businesses that respect the criteria of annex A.	Traditional enterprises Social Economy businesses that respect the criteria of annex A The Head Office of the company must be in Quebec.

3.2 Eligible Project

FLI	FLS
General Component	
Start up Expansion (commercialisation of a new product or service, export, growth support growth, modernization, innovation, implementation of a subsidiary).	Start up Equipment purchase/renewal; Businesses succession/acquisition Contract financing (bridge loan while waiting for a confirmed source of revenue) Expansion (commercialisation of a new product or service; export, growth support, modernisation or innovation, creation of a subsidiary) Recovery plan (the FLS can invest alone in these kinds of projects) if the business: <ul style="list-style-type: none"> ▪ Is going through a non-crucial particular crisis; ▪ Relies on an experienced managerial team; ▪ Does not depend on a declining market or a single client; ▪ Has developed and implemented recovery plan; ▪ Has rallied a maximum of partners around the recovery; ▪ Is supported by the majority of its creditors.

Succession component

Any entrepreneur or group of entrepreneurs wishing to acquire a significant participation of at least 25 % of the value of an existing business or for the fair value of the assets with the intention of taking it over. A guaranty on shares or financed assets will be required. In this component, all financed projects must work towards the transfer of management and of the ownership of the business from the seller to the entrepreneur or a group of entrepreneurs within the work frame of a planned succession. Hence, simple business acquisition is not admissible in this component.

Excluded Projects

- Excluded are business projects of sexual, religious, political nature or any other business which activities are likely to arouse controversy (for example: escort agencies, tarot cards reading, numerology, astrology, etc.).
- Pre-start-up projects. The business must be in the marketing stage.
- For FLS: the investments cannot be made in businesses:
 - o Which more than 10% of gross sales are derived from the production or sale of weaponry;
 - o Is part of the tobacco industry;
 - o That have a non-responsible attitude towards the environment under the applicable legislation;
 - o That have a history of non-respect of labour standards or of human rights law;
 - o Housing project.

3.3 Eligible Sectors of Activity

The sectors of activities of businesses that are financed by the “Local Funds“ are in line with the guidelines and orientations of the Vision Pontiac 2020 Strategic Development Plan which are the following: agriculture, forestry, tourism, commerce and services, community-based, culture and heritage.

3.4 Eligible expenses

FLI	FLS
General component	
<ul style="list-style-type: none"> ▪ Capital expenditures such as land, building, equipment, machinery, mobile equipment, incorporation fees and all other expenses of the same nature except for goodwill costs; ▪ Acquisition of technologies, computer programs, software packages, patents and all other expenses of the same nature except Research and Development activities; ▪ Working capital needs related strictly to the company's operations and calculated on the basis of its first year of operation; ▪ Additional working capital needs calculated for the first year following the expansion project. 	<p>No specific expense.</p> <p>The FLS does not get involved in any residential project. However, in the context of developing services provided for, or made available to, tenants or residents, le FLS can finance, for example, purchase of equipment project or establishing capital assets allowing for a better living environment.</p>

Succession component	
<ul style="list-style-type: none"> ▪ Expenses for acquiring titles to the property of the targeted business (Shares with voting rights or profit shares); ▪ Expenses linked to acquisition of assets of the targeted business; ▪ Professional services fees directly linked to the acquisition transaction. 	

3.5 Ineligible expenses

FLI	FLS
General component	
<ul style="list-style-type: none"> ▪ Expenses for the execution of a project that are made before the date of reception of the official application. ▪ - The allocated financial assistance cannot be used for an organisation's operating expenses, debt servicing, future loans repayment or financing an already completed project. 	
Succession component	
<ul style="list-style-type: none"> ▪ Expenditure entailed before presenting the project. 	

3.6 Nature of support

FLI	FLS
General component	
<p>The contribution can consist of a loan, an equity loan, a loan guarantee, the provision of a bond, acquisition of bonds or notes, participation in the share capital, social capital or otherwise.</p>	<p>It may take the form of a:</p> <p>Term loan</p> <ul style="list-style-type: none"> ▪ with or without collateral security or real estate; ▪ with or without corporate or personal surety; ▪ that can be participatory, with either a royalty on net income or the increase in sales, or an option to purchase of participating shares; ▪ which may include a repayment schedule tailored to the realities of the company, for example, companies whose activities are seasonal; ▪ which capital can be refunded according to the flow generated in the case of succession and expansion of company files. <p>FLS will not make an investment in the form of a repayable or non-repayable contribution attributable to a grant.</p>

	<p>Temporary loan: for a period ranging from a few weeks to a few months but not more than 18 months. The principal is repaid at maturity and interest are paid monthly. This type of financing is especially used to finance an important entry of money either from a grant receivable or an important account receivable. It is imperative to ensure that accounts receivable are real and that they are not being some other claim.</p> <p>For example, in the case of research and development tax credits for, It is important to check with Governments the amounts not paid in taxes and source deductions, because they can perform compensation of tax debts to collect any amount due.</p> <p>Share capital The FLS cannot make any investment in the form of share capital regardless of category.</p> <p>Loan guarantee The FLS cannot guarantee any loan from a financial institution or other organization providing capital development or venture capital.</p>
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The assistance will take the form of a loan.

In order to calculate the equity of a project, the company shall provide its last accounting financial statements and these will have to be dated at least 12 months. The financial statements must be in the form of a notice to reader, a review engagement or audited.

3.7 Investment ceiling

FLI	FLS
<p>Combined financial assistance FLI/Business Support Policy (BSP) granted to one company may not exceed \$150,000 (nominal value) within a period of 12 months.</p> <p>Aid cumulated from Quebec and Canada Governments and the MRC cannot exceed 50% of eligible expenses except for social economy enterprises where financial assistance can reach 80%.</p> <p>A repayable assistance (loan or other type of repayable investment) is considered at 30%.</p>	<p>The maximum investment made out of the FLS in the same business or company or in a business or company of the same group (group having the meaning conferred by the Securities Act) is a HUNDRED THOUSAND DOLLARS (\$100,000)</p> <p>We do not take into account the FLS in the stacking of Government assistance. However, the FLS is not part of the contribution of the promoter.</p>

3.8 Interest rate

After analysis of the project, the rate is established according to the level of risk allocated to the investment according to a *risk determination risk matrix* provided by the FLS-FTQ. In the event of a change of rates of expected return, the CIC will have to demonstrate that adopted rates will help to ensure the sustainability of the funds.

Loans are based on the prime rate plus a risk premium:

Risk	Risk premium – Secured loan	Risk premium – Unsecured loan
Very low	0,0 %	1,0 %
Low	1,0 %	2,0 %
Medium	2,0 %	3,0 %
High	3,0 %	5,0 %
Very high	4,0 %	7,0 %
Excessive	10,0 %	

Amortization premium

An amortization premium of 1% is added if the term of the loan is greater than 60 months (including the moratorium, if there is including the moratorium, if there is one).

Secured loan

The interest or return rate can be reduced by 1% in the case of a secured loan by a first mortgage on tangible goods which value is supported by an assessment.

Interest on interest

Interest not repaid at maturity will bear interest at the same rate as the loan.

3.9 Investment period

FLI	FLS
<p>In general, investments are authorised for a period varying between 1 and 7 years. For investments where the reimbursement is done according to the cash flow generated, in theory the period could be extended to 10 years.</p>	

3.10 Down payment requirements¹

FLI	FLS
<p>20% of the total cost of the project. This contribution will be structured as follows:</p> <ul style="list-style-type: none"> - Monetary contribution (cash) equal to a minimum of 10% of the total cost of the project, <p style="text-align: center;"><u>PAIRED with a combination of the following</u></p> <ul style="list-style-type: none"> - A grant from a Federal, Provincial or Municipal agency up to a maximum of 40% of the total cost of the project (80% in the case of social economy organisations) AND/OR - A Personal loan from a financial institution (Bank, Caisse populaire, Financial Company, etc.) AND/OR - Youth Strategy loan from the SADC (CFDC) AND/OR - Net value of the immovable and movable items which will be transferred to the new company. <p>In the case of a start-up, the down payment of the promoter or promoters must be 20% of the total cost of the project. In certain cases, the down payment may be higher or lower depending on the quality of the promoters or the project. However, the ratio cannot be inferior to 15%. Exceptionally, this ratio can be inferior within the project of young promoters.</p> <p>In the case of an existing company, the company’s equity (net asset) after project must reach 20%. In certain cases, the down payment may be higher or lower depending on the quality of the promoters or the project. However, the ratio cannot be inferior to 15%. Exceptionally, this ratio can be inferior within the project of young promoters.</p>	

¹ The transfer of assets could be considered as follows: Any purchase made for the project acquired in the year preceding the opening of the file at the MRC will be considered at 100% of the value (supporting invoice). However, all other subsequent assets transferred to the company will be considered at 50%. (An exhaustive list of all these assets with their updated costs will be required)

4. COMBINAISON OF FLI/FLS LOANS

When the FLS is involved:

The shared investment proportions are set at 60% from the FLI and 40% from the FLS.

In a joint financing, the conjoint investment policy must follow these criteria:

- Financing arrangements are similar as far as the duration, the form and conditions of investment are concerned; they may vary as far as the rate of return required by the two funds, they may be different and will be reflected by weighted rate in the loan to enterprises contract.
- The parties agree, when the guaranties or sureties will be exercised, all recovery resulting from exercising their rights will have to be shared in proportion to the amount of guarantied investments;
- Investments must be done using a single and joint loan agreement.

5. ACCUMULATION OF GOVERNMENT SUPPORT

Combined financial aid, from the Quebec and Canadian governments and the MRC, cannot exceed 50% of admissible expenses for each project, with the exception of social economy projects where the financial aid can reach 80%.

The calculation of the cumulative government aid, apart from the contribution of the MRC which must be considered at 100% of its value, non-refundable support (such as a grant) from Quebec and Canada governments or other organisations whose financing comes from the governments is considered at 100% of its value whereas a refundable financial aid (such as loans or other types of refundable investment) is considered at 30%.

We do not take into account the FLS in the accumulation of governmental aids.

6. INSTALLMENT CONDITIONS

General component: the authorised projects shall be the subject of a contract. This contract lay down the conditions for awarding financial assistance, the responsibility of the parties, and the conditions for installments. Succession component: the authorised projects shall be the subject of a contract. The contract must have in annex the following documents:

- The agreement binding the entrepreneur or the group of entrepreneurs to the owner(s) of the existing enterprise, the agreement shall include notably that the objective is to insure a succession of the enterprise;
- Relevant documents attesting that the entrepreneur or group of entrepreneurs have the ownership rights to at least 25% of the value of the enterprises (shares with voting rights or stakes) or the acquisition of at least 25% of fair values for the asset.
- The contract must also include the following obligations:
 - The entrepreneur or the group of entrepreneurs must keep ownership rights of at least 25% of shares with voting rights or stakes of the enterprise or at least 25% of fair values for the asset of the enterprise for the complete duration of the loan;
 - To keep the enterprise and its activities on the Pontiac territory for the complete duration of the loan.

In the event of failure to either of these obligations, any part of the loan not repaid must be returned immediately.

7. MORATORIUM ON CAPITAL REPAYMENT

Exceptionally and in certain conditions, the company may benefit from a moratorium of repayment of the principal for a maximum period of 12 months within the total duration of the loan and bearing interest at the rate decided initially in the investment. This period could be longer in the case of an export project, a growth support project or productivity improvement, for never more than 24 months. Furthermore, the interests on the loan remain payable monthly.

8. REPAYMENTS BY ANTICIPATION

The enterprise can, at any time, reimburse by anticipation the loan in its entirety or in part, following conditions specified in the loan agreement. Generally, the repayment by anticipation can be made without penalty.

9. RESTRICTIONS

Any expense previously made for the realization of a project, either completed or in progress, but dating prior to the date of receipt of the official application for assistance by the MRC are not eligible for reimbursement. However, they can be taken into account as down payment.

10. RECOVERY

In order to ensure the sustainability of the "Local Funds" for the MRC Pontiac, it is important to establish a collection policy adapted to the structure and mission of the organization. The steps taken to collect from creditors must demonstrate to them that a uniform guideline has been established in the MRC Pontiac and that it is unrealistic to expect favoritism, automatism and complacency on the part of creditors in default.

A move outside the territory of the MRC Pontiac of the said place of business would contravene one of the default clauses found in the loan contract. The company would then be obliged to immediately repay the totality of the loan and the interest due.

Any collection process must be progressive and based on the type of default the creditor is in.

10.1 Steps in the Collection Process

A. In order to ensure information on the compliance of debtors with their monthly commitments, the person responsible for the management of "Local Funds" must have access to the bank data as of the day following the date of the pre-authorized monthly transfers, all in order to validate whether the transfers receivable have been complied with.

B. Defaulting creditors shall be contacted by telephone to advise them of the default and given five (5) days to correct the situation;

C. If after the five (5) days the default is not corrected, a written notice shall be sent to the corporate officer and the shareholders. This notice shall state the default and allow five (5) days to correct the situation;

D. If the preceding procedure does not bring the expected results, a formal notice drafted by the MRC Pontiac is sent by special mail or delivery agent to the various persons responsible for this debt. This demand letter will grant a new delay of three (3) days to correct this default;

E. If after three (3) months of default, the company has not corrected the situation following the various steps taken by the MRC Pontiac, legal counsel will be solicited in order to intervene in the collection process, the whole process having to begin with a reminder of the formal notice produced by the MRC Pontiac and the appropriate procedures to recall the debt.

10.2 Bankruptcy or proposal of settlement situations

In the first instance, the claim must be filed by the MRC Pontiac with the trustee in charge of the file. Secondly, considering that certain loans authorized by the MRC Pontiac are guaranteed by the shareholders' guarantee, a collection action against them will be filed by the MRC Pontiac. In a third step, a recovery action against the sureties will be filed by the MRC Pontiac's legal counsel if the previous procedure was unsatisfactory.

10.3 Other situations

In the case of situations not covered by the debt collection framework, the rule of common sense and diligent management will be applied. All debt collection efforts must be directed at collecting the full amount owed to the MRC Pontiac if possible.

10.4 Moratorium on reimbursement

Considering that the mission of the MRC Pontiac is to promote the development of businesses in its area, to respect their various opportunities and not to be an agent of undue pressure in a situation of situational financial incapacity (fair tolerance), the MRC Pontiac is in a position to grant a moratorium on the commitments that the business has towards the MRC Pontiac.

In order to obtain this consent, the company must submit a written request to the MRC Pontiac. In this document, the company must describe the circumstances that prevent it from respecting its obligations and the corrections that will be put forward to correct this inability. In addition, the company must propose, to the satisfaction of the MRC Pontiac, a method of catching up on the arrears and provide updated financial statements for the last two (2) years.

The MRC Pontiac may request all documents and information it deems necessary to evaluate the relevance of authorizing the requested moratorium.

The MRC Pontiac may resort to a new loan agreement to establish, if necessary, the new terms and conditions, all of which must be constituted so as not to cause novation.

10.4.1 New project

After analysis and depending on the risk assessment, a moratorium on the repayment of principal and/or interest may be granted for a maximum period of 12 months subject to the capitalization of interest. The decision must be made before the loan is disbursed.

10.4.2 Project in progress

Exceptionally, and under certain conditions, the business may benefit from a capital repayment moratorium for a maximum period of 12 months within the total duration of the loan and bearing interest at the rate previously described. However, this period may be longer in the case of export, growth support or productivity improvement projects, without ever exceeding 24 months. In addition, interest on the loan remains payable monthly.

11. ADMINISTRATIVE FEES

Opening and follow-up fees:

1% of the amount requested is required to open the file, with a minimum of \$150 and a maximum of \$250.

Legal fees:

All legal fees associated with the realisation of the investment is the responsibility of the promoter. To the extent possible, the MRC will maintain the administrative fees to a minimum.

12. APPLICATION PROCESS

- Presentation of a complete file to the funds' analyst (business plan, credit report, details of the funding sources of the project) and verification of the content by the MRC;
- Validation of the business plan and complete file analysis by the MRC analyst;
- Presentation to the Common Investment Committee (CIC) by the economic development department of the MRC Pontiac.
- The committee's decision, be it:
 - Accept the project; OR
 - Ask the promoter to clarify some details or make some changes to his project in a reasonable timeframe;
OR
 - Refuse the project.
- If the project is accepted, issuance of a financing offer signed by the management of the Department of economic development of the MRC;
- If the project is rejected, issuance of a refusal letter signed by the management of the Department of economic development of the MRC.
- When all conditions are met, a contract is signed between the promoter and the MRC Pontiac, by the management of the Department of economic development of the MRC.
- Preparation of legal and administrative acts according to the intervention of the MRC;
- Follow-up of the file by the MRC;
- The name of the project and the amount of aid granted are of a public nature. Projects having received financial assistance may be listed in publications, advertising material or any other document produced by the MRC Pontiac or its partners.
- The MRC Pontiac reserves the right to pay the amount of the aid in installments or on submission of invoices and interrupt the payment if the progress of the work does not meet the timetable or agreed results.

13. EXCEPTION TO THE POLICY

The CIC must comply with this common investment policy. It has the mandate to apply it taking into account the healthy management portfolio. In the case where common investment policy is more restrictive than the framework given by the Solidarity Fund FTQ, the CIC may request a derogation to the MRC at any time insofar as the criteria of the framework of the Solidarity Fund FTQ is respected. If the waiver request is beyond the scope of the Solidarity Fund QFL, a waiver request must be made in both instances, the MRC and FLS - FTQ. However, at no time, shall the two (2) following criteria be modified:

- Investment ceiling (article 5);
- No funding to companies that have negative net assets after the financing of the project.

14. THE POLICY CHANGE

The MRC and the Solidarity Local Funds FTQ, s.e.c., may by mutual agreement amend the common FLI/FLS investment policy provided that these changes remain within the framework established by the Solidarity Local Funds FTQ, s.e.c., with respect to the FLS. If the change request does not come from the CIC, one or the other of the two parties may consult the CIC to seek advice on any changes. However, the amendments must never compromise the concepts of common investment and return on investment as well as the mandate of the common investment Committee.

At the beginning of each calendar year, the parties will review the present policy to make changes, if necessary.

15. COMING INTO FORCE

This investment policy comes into force on March 16, 2022 and replaces any other previously adopted policy.

16. SIGNATURES

This is the complete text of the common FLI/FLS investment policy adopted by the MRC. The MRC having already signed a loan agreement and an addendum to the contract with the MEI, this Department has no obligation to sign the common FLI/FLS investment policy. However, the policy was deposited with the MEI for review and approval.

Jane Toller, Warden MRC Pontiac

DATE: _____ 20____

This policy respects the framework for investment of the Solidarity Local Funds FTQ, s.e.c.

Éric Desaulniers, Director General
Fonds locaux de solidarité FTQ, s.e.c.

DATE : _____ 20____

ANNEX A

SOCIOECONOMIC ENTERPRISES

(Investment by the FLS)

As far as Non-Profit Organisations (NPO) are concerned, those created under the Quebec Companies Act (Part III), only social economy enterprises are eligible to the FLS as long as the following conditions are respected:

- be a social economy enterprise respecting the following characteristics:
 - production of goods and services which meet the economic and social, individual, or collective needs;
 - democratic management processes;
 - primacy of the individual over capital;
 - to promote collective responsibility;
 - impact on the local and communities development, notably the creation of sustainable employment, the development of the offer of new services and the improvement of the quality of life;
 - to manage according to an entrepreneurial philosophy.
- operate in a marketable economy context;
- have completed the implementation and start-up stages;
 - be in an expansion stage (however the FLI can invest alone in start-ups);
- have a majority of permanent jobs (unsubsidised by specific programmes);
- make sure that, on top of the quality of the job, these jobs must not be a substitution of jobs of the public and para-public sectors;
- detain a net asset corresponding to at least 15 % of the total asset;
- to auto finance to 60% (autonomous revenue represent 60% of the total income and can include contractual and governmental agreements).

The FLS portfolio must be composed of no more than 25% of social economy enterprises.

Furthermore, organizations accountable to the Quebec government or who have to manage a Quebec government programme are ineligible notably: *Early Childhood Centre (ECC)*, home support services, perinatal care centers, educational services, housing, *Carrefours Jeunesse Emploi (CJE)*.

ANNEX B

DEFINITIONS

Operation starting date :	The date of the first sales or of the first purchases and failing that, the date of the lease.
Start-up business:	A business in operation for at less than two years.
Consolidating business:	A company with technical and/or financial difficulties
Expanding business:	A company that wishes to expand its activities.
Economic viability:	Assumes sufficient income to support expenses and the current portion of debt and working capital in the short, medium and long term
Economic performance:	Simply put, it is the achievement of sustainability to which we add a notion of efficiency defined among other things by the level of net margin on sales, return on invested capital and return on equity compared to the capital invested.
Own-source revenues:	Come from the sale of goods and services by the collective or private company to clients or users.
Undue competition:	Projects funded in congested areas or in strong competition within a same economy or economy to another.
Job substitution:	Subsidised projects that create new jobs only to move from one company to another.
Social economy:	This term refers to the social profitability of companies and not purely economic. Social profitability contributes to improving the quality of life and well-being of the population. For a more complete definition please refer to the “Normes de gestion du fonds de l’économie sociale” of the MRC Pontiac.